

Qualifying for loans

Students apply their understanding of secured or unsecured loans as they write a description of an individual who may or may not qualify for each type of credit. Students may benefit from doing this activity after they've completed a few other activities focused on credit and loans.

Learning goals

Big idea

Borrowers may qualify for different types of loans based on their creditworthiness.

Essential questions

- How might a person's credit habits and decisions influence their ability to borrow money?
- What are some facts about credit scores that could influence lenders when a person wants to borrow money?

Objectives


- Understand the characteristics of secured and unsecured loans
- Identify credit habits and choices that could help or hurt a person's creditworthiness

What students will do

- Review the characteristics of secured and unsecured loans.
- Write a description of individuals who qualify or do not qualify for a secured and an unsecured loan based on their creditworthiness.

KEY INFORMATION

Building block:

 Financial knowledge and decision-making skills

Grade level: High school (9-12)

Age range: 13-19

Topic: Borrow (Getting loans)

School subject: CTE (Career and technical education), English or language arts, Social studies or history

Teaching strategy: Cooperative learning, Personalized instruction

Bloom's Taxonomy level: Understand, Apply

Activity duration: 45-60 minutes

STANDARDS

Council for Economic Education
Standard IV. Using credit

Jump\$tart Coalition
Credit and debt - Standard 1

Preparing for this activity

- ☐ While it's not essential, having students complete the "Differentiating between secured and unsecured loans" activity before doing this one can make it a more meaningful experience.
- ☐ Print copies of all student materials for each student, or prepare for students to access them electronically.

What you'll need

THIS TEACHER GUIDE

- **Qualifying for loans (guide)**
[cfpb_building_block_activities_qualifying-loans_guide.pdf](#)

STUDENT MATERIALS

- **Qualifying for loans (worksheet)**
[cfpb_building_block_activities_qualifying-loans_worksheet.pdf](#)

Exploring key financial concepts

Credit offers seem to be everywhere, but not everyone who applies for a loan qualifies for it. Creditors often evaluate a person's credit history, or creditworthiness, to determine what kind of risk that person presents as a borrower.

Secured loans require the borrower to provide collateral (something of value like a car, a boat, a home, etc.) that the bank or lending institution can take if the borrower can't pay back the loan. If a person cannot pay back a secured loan, the lender can take steps to take the collateral. The person can also face debt collection, negative information on their credit report, and may be sued.

In contrast, unsecured loans require no collateral, so the bank or lending institution is trusting that these borrowers will pay them back. This trust is based on their creditworthiness—what borrowers have done in the past that gives them a good credit rating. Because unsecured loans put lenders at higher risk, they may have a higher interest rate than secured loans. If a person cannot pay back an unsecured loan, they can face debt collection, negative information on their credit report, and can be sued.

Teaching this activity

TIP

Visit CFPB's financial education glossary at consumerfinance.gov/financial-education-glossary/.

Whole-class introduction

- Create groups of three to four students.
- Be sure students understand key vocabulary:
 - **Creditworthiness:** Being financially sound enough to justify the extension of credit.
 - **Secured loan:** Loan in which your property (things you own) are used as collateral. If you cannot pay back the loan, the lender will take your collateral to get their money back. The lender can also engage in debt collection, file negative information on your credit report, and may sue you.
 - **Unsecured loan:** A loan that does not use property as collateral (such as most types of credit cards); lenders consider these as more risky than secured loans, so they may charge a higher rate of interest for them. If the loan is not paid back as agreed, the lender can also start debt collection, file negative information on your credit report, and can sue you.
- Review the similarities and differences between secured and unsecured loans.
- If students previously completed the activity, "Differentiating between secured and unsecured loans," ask them to reflect on the key points they learned.

Individual and group work

- Distribute the "Qualifying for loans" worksheet to each student.
- Have groups decide who will write the description of each type of potential borrower listed on the worksheet.
 - If any group has fewer than four students, group members can choose which scenarios they'll focus on.
- Instruct each student to write a description (using one of four scenarios on the worksheet) of a person whose creditworthiness either allowed or didn't allow them to get a specific kind of loan.

Wrap-up

Have students share their descriptions with the class.

Suggested next steps

Consider searching for other CFPB activities that address the topic of borrowing, including managing credit, or the topic of spending, including paying for college.

Measuring student learning

The students' descriptions of an individual who could or could not qualify for a secured or unsecured loan can provide a picture of the students' broader understanding of credit and creditworthiness.

Keep in mind that students' answers may vary, as there may not be only one right answer. The important thing is for students to have reasonable justification for their answers.